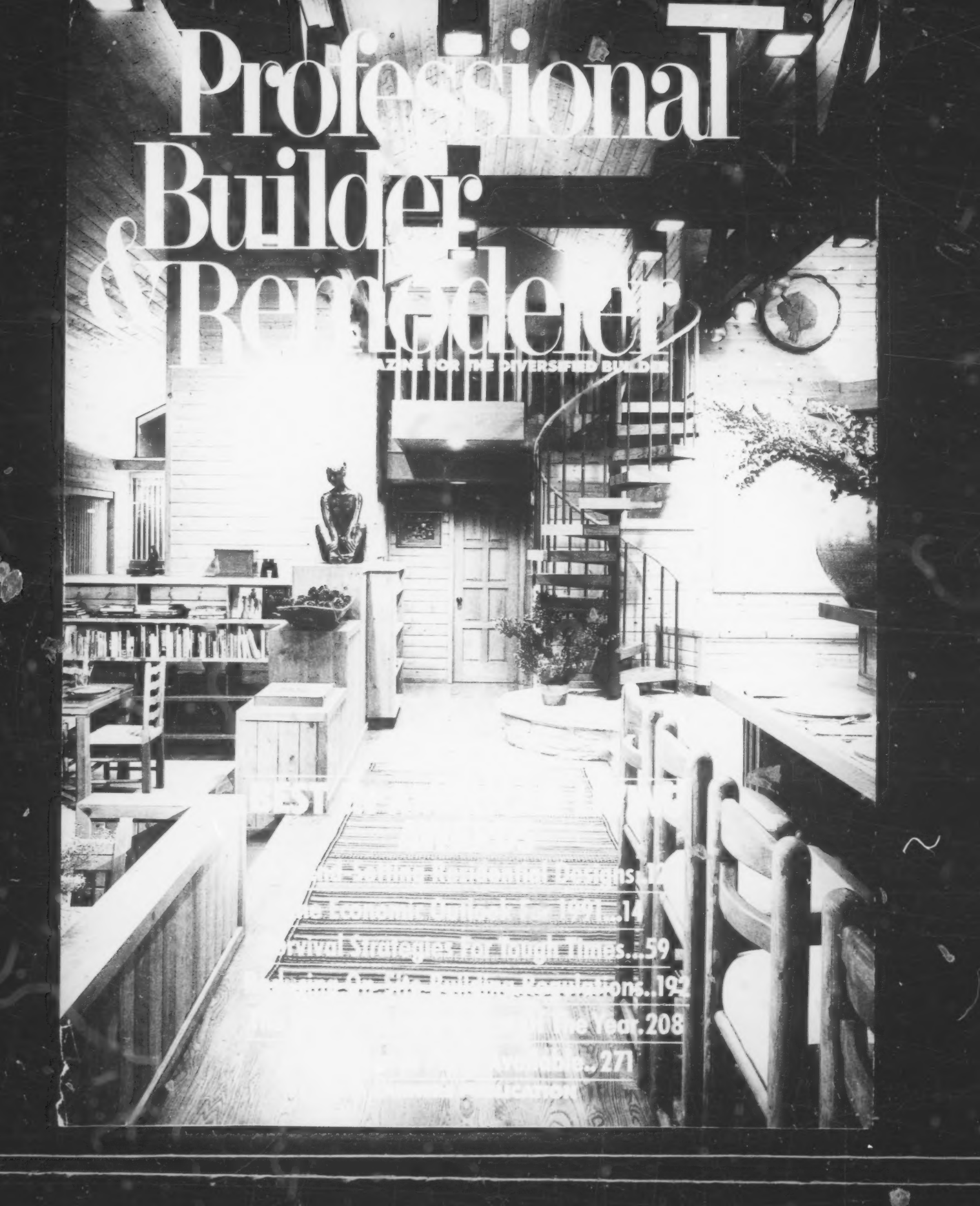
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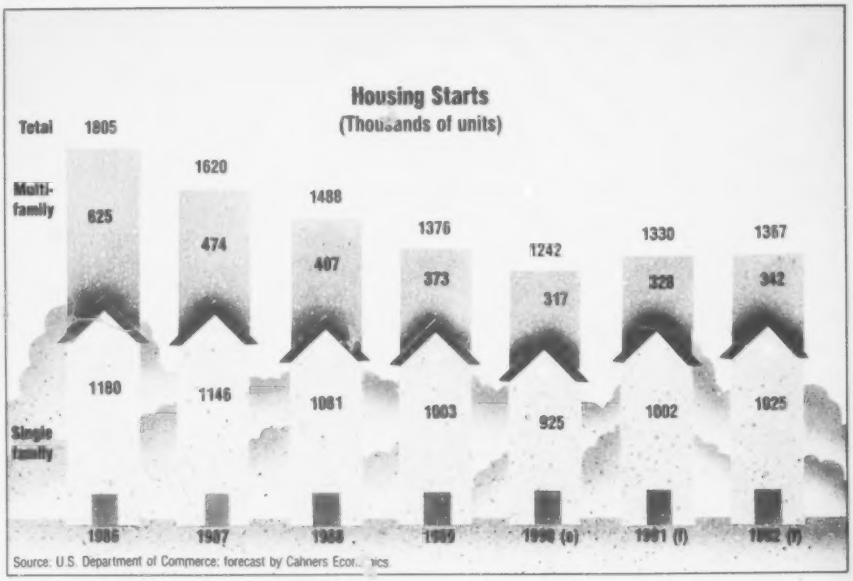
Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER

On The Cover

■ The BALA House Of The Year, called the Karakahl, was created by builder Don Galts and architect Vernon Swaback on a hillside site in Forest Lakes, Ariz. This 2350-square-foot retreat took 14 months to complete. Photography by Mark Boisclair.



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Professional Builder & Remodeler's *awards program (co-sponsored with NAHB) recognizes well-designed attached and detached homes that incorporate livability, construction quality and architectural appeal.*

Let America Build: Regulations Reform 192

The direct costs of over-specified residential streets, sidewalks and sewer capacity show up in housing prices. But just as important, such requirements have the effect of eating up land. Those indirect expenses add even more to the housing affordability problem.

Product Showcase 208

In this special report, builders will find an abundance of new and best-selling products. Staff editor Lisa Marquis assembled this portfolio of building products and services.

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Business

■ Cahners Economics says the overall economic forecast for 1991 is weak, although construction markets should begin their recovery by midyear. Complete details on key markets, including remodeling and non-res construction, are included: *p. 14.*

Markets

■ Here's a collection of some of the finest housing product in the United States. If you're attending the NAHB Show in Atlanta this month, you'll want to jot down some of these key "sites" to tour: *p. 31.* Historic renovation proves to be a lucrative niche for a Virginia builder: *p. 46.*

Management

■ Survival is the name of the game this year. Here is sound advice from building veterans who've weathered many down cycles in the past: *p. 59.*

Marketing

■ Need some good promotional and advertising ideas to carry you through these tough times? Here's a first-rate collection: *p. 81.*

Technology

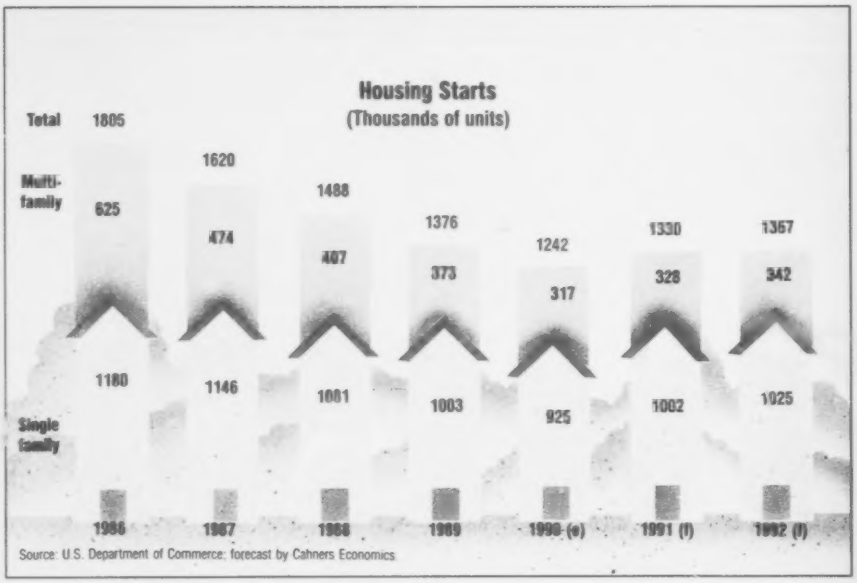
■ Flexibility is the main goal of producers of modular housing and building systems these days. Their product can be easily adapted, in fact, to meet the needs of upscale buyers: *p. 199.*

BUSINESS

■ 1991 OUTLOOK: PART I

Construction Markets Should Begin A Slow Recovery By Mid-Year

While new home construction is still weak, remodeling should fare better in 1991.



Source: U.S. Department of Commerce; forecast by Cahners Economics

Overall, 1990 ranks as the worst year for the economy since 1982. Fortunately, we see growth accelerating as 1991 progresses, although the 1.9% increase that we are forecasting in the nation's Gross National Product remains well below the average 3.5% annual growth recorded during 1987-1989.

Construction-related businesses are fortunate to always be at the "leading edge" of business cycle upturns. Builders and remodelers will be among the first businesses to benefit from the higher levels of economic activity in 1991. However, the recovery will be painfully slow—trying the patience of those in the business.

Here's a look at key segments:

Residential construction activity in 1990 declined to a level not seen since the '81-'82 recession. Total housing starts declined by 9.7%, the fourth consecutive "down" year. Total dollars spent on the construction of new homes and apartments was off by a correspondingly large 7.5%.

We expect a combination of lower interest rates, a recovering U.S. economy, and "pent-up demand" to begin to reverse this discouraging trend in 1991. Total starts should be up about 7% from the depressed 1990 level.

Single-family starts should increase 8.3%, after falling below one million units in 1990 for the first time in eight years. The battered and beaten multifamily sector will finally bottom out in 1991, following a five-year period when annual starts of apartments and condominiums fell 52%. The modest 3.4% gain would be greater were it not for the reluctance of lenders to make funds available for multifamily projects.

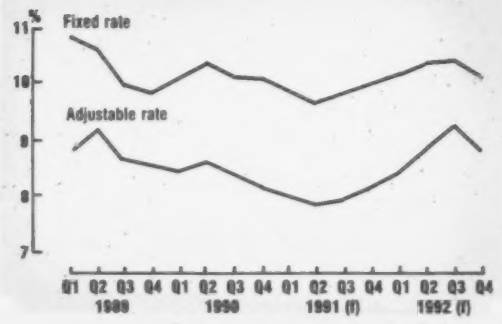
All regions of the country should share in the modest upturn. The Midwest fared best during the period of extreme weakness from which we are just emerging, while new construction in the Northeast plummeted. Total starts in the Northeast during 1990 were barely 40% of their 1986 peak. Steady gains will continue to be achieved by most cities in the Great Lakes and Plains states, while the prolonged decline in residential construction in the Northeastern metro areas will finally stabilize.

Permit trends indicate that the best growth in 1991, both for single-family and multifamily construction, will occur in Oil Patch cities like Dallas and Houston.

Residential remodeling had another slow year despite the first quarter surge in consumer spending on upkeep and improvement work. Consumer confidence waned as the economy slowed and the Middle East crisis heightened.

For the year as a whole, total upkeep and improvement spending eked out a gain of only 2.9%, following last year's decline of 0.2%. We look for a some-

Mortgage Interest Rates
(Quarterly averages by percent)



Source: Federal Home Loan Mortgage Corporation; forecast by Cahners Economics.

Residential Remodeling Expenditures
(Billions of dollars)

	Maintenance & Repairs	Additions & Alterations	Major Replacements	Total
1989	$42.7	$39.8	$18.4	$100.9
1990 (e)	$44.1	$40.7	$19.0	$103.8
1991 (f)	$46.3	$43.4	$19.9	$109.6
1992 (f)	$48.9	$46.5	$20.9	$116.3

Source: U.S. Department of Commerce; forecast by Cahners Economics.

what better 1991, with total spending on residential upkeep and improvement projects moving ahead by 5.6%. As the economy improves and consumer confidence turns up, spending on big-ticket improvement projects should benefit the most. We are forecasting a 6.5% increase in expenditures for residential addition and alteration jobs.

Somewhat better rates of growth should be realized during the next few years as homeowners are increasingly inclined to "move up in place." Weakness in the new residential construction sector, reflected in fewer new home sales and slower rates of price appreciation, should help spur remodeling activity.

Although remodeling spending will continue the well-established trend towards exceeding new construction spending in percentage growth, annual rates of increase during the next few years will be well below the "boom-time" rates of the 1984-1987 period.

A review of building permit trends suggests that remodeling activity was particularly strong in the Midwest and on the Pacific Coast during 1990. The large industrial cities of the Northeast and Midwest, with their large stock of older homes ripe for repair and remodeling, will continue to support a high volume of upkeep and improvement work. However, the fastest-growing markets in 1991 will be those areas—particularly in California, Florida and the Pacific Northwest—where the pace of new construction activity has slowed, but income and employment trends remain positive.

Non-residential construction spending, in contrast to the near recession-like weakness in residential markets continued to rise modestly throughout most of 1990. Commercial, industrial and institutional construction spending totaled $146.6 billion, an increase of 3.9% over the previous year's total. However, all of the relative strength in non-residential construction was concentrated in just a few building types—warehouses, schools and hospitals.

Total dollars spent on the construction of new commercial space fell in 1990 for the first time since 1987. Total commercial construction spending, in real terms, declined 5% in 1990 and will fall by the same amount in 1991. By far the weakest group within the commercial sector will continue to be, office buildings.

Continued on page 18.

Oil price shocks should not drive up building material cost

Continued from page 15.

Construction of new shopping malls, restaurants, and the variety of other retail and service establishments declined slightly during 1990. Demand should grow sufficiently to support at least a small increase in this group in 1991. But overall spending for the entire hotel construction segment should be off about 4% from 1990.

Non-residential reconstruction, following several years of strong growth, turned weaker in 1990. Although no comprehensive series exists which enables us to monitor changes in the value of non-residential reconstruction work with the same precision as for residential remodeling work, building permit values do help us to get a sense of how private reconstruction markets are faring.

In 1990, the total value of permitted private non-residential addition, alteration, and conversion work fell 1.1% from the level of 1989. This was the first time in the 10 years that we have been monitoring this data that the value of reconstruction work declined over a 12-month period. Still, private reconstruction fared better than the fading new construction market: during 1990, the value of permitted new private non-residential construction was down more than 10%.

This relationship should hold true in 1991 as well. We expect the total value of non-residential reconstruction work to rise a modest 5%, while new non-residential construction will decline slightly.

Building materials prices rose much more slowly in 1990 than at any time during the past several years. Following a 3.3% hike in 1989, inflationary pressures eased.

The most dramatic slowdown in price inflation was concentrated in those materials used primarily in residential construction. Lumber and gypsum products both recorded actual price declines over the year. Excess production capacity has kept the lid on plastic construction product price increases, despite the susceptibility of these petroleum-based products to higher oil prices. Paint products, on the other hand, have seen above-average increases the past few years.

For 1991, the gradual upturn in construction activity, combined with some spillover from rising energy costs, should send construction materials prices up a sharper, but still modest, 2%. Only a few construction products are petroleum-intensive, so the effects of any additional oil price shocks should be blunted, although it could raise transportation costs, which some manufacturers will pass onto contractors.

By Kermit Baker & Daryl Delano, Cahners Economics

Price Changes For Selected Building Materials
(Annual percent change)

	1987	1988	1989	1990	1991 (f)	1992 (f)
All construction materials	2.1%	5.6%	3.3%	0.2%	2.0%	2.5%
Builders' hardware	1.4	4.3	4.4	4.1	2.6	3.2
Ceramic floor & wall tile	3.4	3.3	2.3	1.6	1.3	2.5
Common brick	3.6	3.9	0.8	2.1	2.6	1.7
General millwork	3.9	3.4	4.8	2.0	3.2	4.0
Gypsum products	-8.7	-9.8	-2.5	-4.5	-5.6	0.3
Lighting fixtures	2.8	2.8	4.8	2.8	2.8	3.2
Lumber	6.9	3.3	3.0	-0.7	1.2	4.1
Plumbing fixtures	3.7	7.5	7.0	4.4	5.1	3.7
Prepared paints	1.0	3.8	6.5	4.3	4.9	4.2
Strip shingles	-5.1	0.8	-0.1	-0.3	0.7	1.5

Source: U.S. Bureau of Labor Statistics; forecast by Cahners Economics.

1991 Building Forecast, At A Glance

Housing Starts: 1.002 million single-family units; 1.33 million total.

Remodeling: 5.6% increase in spending to $109.6 billion.

Non-Res: New construction off 5%, but reconstruction will be up 5%.

Mortgage Interest Rates: Fixed rates to dip below 10% in early 1991.

Building Material Prices: Up 2% for 1991.

AD INDEX

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